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RUEHFR/AMEMBASSY PARIS 4887
RUEHSG/AMEMBASSY SANTIAGO 0122
RUEHUL/AMEMBASSY SEOUL 7737
RUEHWL/AMEMBASSY WELLINGTON 0860
RUEHFK/AMCONSUL FUKUOKA 5551
RUEHGZ/AMCONSUL GUANGZHOU 1214
RUEHHK/AMCONSUL HONG KONG 5942
RUEHNH/AMCONSUL NAHA 8181
RUEHOK/AMCONSUL OSAKA KOBE 8709
RUEHKSO/AMCONSUL SAPPORO 6729
RUESLE/AMCONSUL SHANGHAI 2029
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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001851

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E.O. 12958: DECL: 04/04/2016
TAGS: [ETRD](#) [ECON](#) [PREL](#) [PGOV](#) [JA](#)
SUBJECT: JAPAN'S TRADE MINISTER PROPOSES EAST ASIA ECONOMIC
PARTNERSHIP AGREEMENT

REF: A. TOKYO 1484 (NOTAL)

[1](#)B. TOKYO 1634 (NOTAL)

[1](#)C. TOKYO 1635 (NOTAL)

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Classified By: Ambassador J. Thomas Schieffer. Reason: 1.4 (b,d)

[1](#)1. (C) SUMMARY: METI Minister Nikai announced on April 4 an ambitious new proposal for a region-wide "comprehensive economic partnership agreement" paired with a new regional policy think tank along the lines of the OECD. Foreign, Finance and Agriculture Ministry senior bureaucrats had no prior knowledge of Nikai's proposal, according to a senior MOFA official. At first glance, Nikai's proposal appears to run counter to recent GOJ decisions to scale back the ambitions of new bilateral trade negotiations. However, METI contacts characterized the proposal as a natural and logical extension of Japan's current regional trade agenda, explaining that it attempts to establish a proactive regional economic agenda that both counters and includes China. METI suggested that East Asia economic relationships be discussed at a bilateral sub-cabinet meeting and stressed that the proposal had nothing to do with the East Asia Summit. END SUMMARY.

[1](#)2. (U) METI Minister Toshihiro Nikai outlined an ambitious new strategy to negotiate a region-wide "economic partnership agreement" (EPA) in East Asia in remarks to the press on April 4. He also floated the possibility of establishing an economic policy think-tank modeled on the OECD that would be dedicated to supporting East Asian regional integration. Nikai told journalists that he will pitch this new strategy to the Prime Minister's Council on Economic and Fiscal Policy (CEFP) on April 7.

¶3. (U) The new proposal for a region-wide EPA would entail launching negotiations in 2008 and targeting 2010 to conclude a single agreement with fifteen other countries: the ten ASEAN members, China, Korea, India, Australia and New Zealand. The agreement would be "comprehensive" in its inclusion of investment rules and services, but Nikai reportedly did not mention agricultural trade.

¶4. (SBU) Nikai first floated the "East Asian OECD" proposal on March 31. While working-level METI contacts initially sought to downplay the implications of Nikai's remarks on the think-tank aspect, his April 4 comments reiterated the goal of an OECD-like organization with a broad mandate ranging from trade and investment to finance, energy and the environment. As a first step, Japan would propose an East Asian Economic Research Center.

¶5. (SBU) METI Trade Policy Director General Kitamura told EMIN April 5 that the region-wide EPA concept was intended as a "mild" proposal and that it should be considered as a natural extension of Japan's current trade policy agenda. By 2007, East Asian trade integration will be centered around ASEAN as a hub, he noted, since Japan and other regional partners expect to complete bilateral "free trade agreements" with ASEAN members and with ASEAN as a whole by then. But this will not address the need for stronger "lateral" linkages among non-ASEAN countries in the region. Thus a region-wide EPA was the logical next step for the medium term, post-2007 regional trade agenda. Kitamura pointed out that ASEAN 3 leaders had called for a study of a regional FTA when they met two years ago. The results of that study were due to be announced this summer, so this was an appropriate time to be formulating proposals, Kitamura said.

¶6. (C) Kitamura acknowledged that a sense of competition with China was one motivation for the proposal, and he expressed

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concern over the prospect that China's "low threshold" trade agreements with ASEAN would set a low de facto standard for regional integration unless others in the region put forward a more ambitious model. Kitamura also apologized for not having briefed the USG on the proposal in advance of Nikai's announcement. Kitamura said he had wanted to raise it with Deputy USTR Bhatia and U.S. APEC Ambassador Michalak during their recent visits, but the proposal was not ready at the time, and then the details were reported by the press sooner than expected.

¶7. (SBU) METI Director for the Americas Akaishi echoed DG Kitamura's points in a conversation with ECOUNS on April 5, adding that the concept of an ASEAN 3 FTA had been floated for some time. Nikai's thinking, although not yet "rigid," was to see if it might be time to think about a comprehensive regional FTA, for which negotiations would begin in 2008, as a follow-on to the various bilateral FTAs to be completed by ¶2007. Given the similarity in political and economic values between Japan and the U.S., Akaishi said, it would be in the U.S. interest for Japan to lead such an exercise. Akaishi confirmed that the idea was not interagency cleared, that it would be discussed at the April 7 CEFP, and that inter-ministerial consultations would take place after that.

¶8. (SBU) Turning to reports of surprise in Washington, Akaishi claimed that DG Kitamura had "always" talked about the possibility of a comprehensive East Asian agreement with USG officials. Kitamura had asked the U.S. to consider what the landscape would look like in 2008 and what the U.S. reaction would be if there were a comprehensive East Asia economic agreement in the 2011-2015 time frame, Akaishi said. Akaishi suggested that the whole issue of East Asian economic relations should be the subject of a "secret" sub-cabinet level meeting. Finally, Akaishi was at pains to stress that Nikai's proposal was distinct from the East Asia Summit (EAS). Characterizing EAS as a "top down" approach, Akaishi said what Nikai was suggesting was more of a building

block approach.

¶9. (SBU) Foreign Ministry Director General for Economics Ishikawa also confirmed that Nikai's comments were not coordinated with the Foreign, Agriculture, or Finance Ministries in advance. Either unaware of or unconvinced by METI's view that a region-wide EPA would be a distinct "next step" following the conclusion of Japan's current negotiations with the ASEANs, Ishikawa told EMIN on April 5 that Nikai's proposal was simply "not workable" due to human resource constraints, and he also cited political difficulties with China and Korea as an obstacle. While Ishikawa doubted that Nikai's proposal had "legs," he added that MOFA would have to pay attention since Nikai was a powerful and influential politician who obviously wants to accelerate economic integration with Asia.

¶10. (C) COMMENT: At first glance, METI Minister Nikai's EPA proposal appears to run counter to recent GOJ moves to scale back its ambitions for future bilateral trade deals in a MOFA-led effort to accelerate negotiations; that policy shift reportedly has the blessing of LDP Policy Research Council Chairman Hidenao Nakagawa and the Cabinet Secretariat. The comprehensive approach described by Nikai

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explicitly includes areas like investment rules that would be dropped under the streamlined "model text" approach described to us by MOFA officials (refs A and B).

¶11. (C) COMMENT CONTINUED: Nevertheless we do not interpret Nikai's abrupt move simply as an effort by the METI bureaucracy to retake initiative on GOJ trade policy-making from MOFA. Nikai's announcement before the METI bureaucracy

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had a chance to roll out the proposal or brief the USG is a strong indicator that METI's concept has Nikai's strong support, even as it complicates METI's efforts to build consensus with other bureaucratic players. Known as the cabinet member closest to China, Nikai has nonetheless publicly voiced concern that Japan is falling behind China (and Korea) in economic diplomacy, a view shared by Japanese business leaders. Nikai appears to be attempting to set a proactive agenda to catch up in a way that would include China -- unlike the MOFA-inspired strategy of streamlined bilateral agreements with regional trading partners. END COMMENT.
SCHIEFFER